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CENTRAL INTELLIGENCE AGENCY

INFORMATION FROM FOREIGN DOCUMENTS OR RADIO BROADCASTS

REPORT

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COUNTRY Yugoslavia

SUBJECT Economic - Finance, fuel

DATE OF INFORMATION 1951

HOW PUBLISHED Monthly periodical

DATE DIST. 4 Mar 1952

WHERE PUBLISHED Zagreb

NO. OF PAGES 5

DATE PUBLISHED Jan 1951

LANGUAGE Serbo-Croatian

SUPPLEMENT TO REPORT NO.

THIS IS UNEVALUATED INFORMATION

SOURCE Nafta, Vol II, No 1, 1951.

FACTORS AFFECTING THE FINANCIAL STATEMENT OF YUGOSLAV PETROLEUM REFINERIES

Dragutin Pantelic

The selling price of products of Yugoslav production enterprises is determined by the state in accordance with general price policy. Selling prices consist of production costs and profits, one part of which go to the enterprise and the other to the social accumulation fund [state budget?]. Each year, production enterprises plan their production costs and financial statements taking into consideration the total cost of production.

The planned expenditures of individual enterprises depend on the nature of the enterprise, its production capacity, kinds of raw materials, expertness of manpower, etc. Enterprises with favorable conditions, such as favorable location near sources of raw materials, modern machinery, better-quality raw materials, etc., will have lower than average production costs and better than average financial statements. However, neither these conditions nor the planned financial statement are constant or unchanging. Manpower, for instance, may contribute greatly to improvement of production conditions and the lowering of production costs. By constant simplification of technological processes, better utilization of plant capacities, better work organization, economic utilization of raw materials, and economic utilization of auxiliary materials and manpower, enterprises with less favorable conditions may show even better results than those which operate under the most favorable conditions but do not strive to utilize existing potentialities.

Consequently, the financial plan may change for the better or worse in the course of the year, depending on the effectiveness of manpower. The financial plan may also be influenced by elements not connected with manpower, such as a change in the price of raw or auxiliary materials, a change in the quality of raw materials, etc. Such factors may even create a wrong impression of the enterprise's operations in that shortcomings caused by these factors may be attributed to inefficiency of manpower.

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Some measures have been taken to eliminate the influence of such factors. For instance, raw materials are computed on the basis of planned prices. Price decreases in raw and auxiliary materials are credited to the budget, while price increases are debited.

This is not sufficient, however, to free the financial statement of the influence of all outside factors. Because of their specialized production, this is especially true of refineries. Even if the effect caused by a change in the price of petroleum is eliminated, possible changes in the kinds of petroleum and in the assortment of finished products as compared with the assortment planned remain. Due to the different outputs they yield, different types of petroleum result in different production values, which may be very substantial. The Rijeka Refinery has shown that the differences in values of individual types of petroleum may be as high as 140,000 dinars per 100 tons. Fluctuations in processing costs of different petroleums may amount to 60,000 dinars per 100 tons. Zoila (Nigeria, Africa) petroleum, for instance, renders much more valuable products than Iranian. Consequently, if a refinery has expected to process Zoila petroleum throughout the year and has prepared a financial statement based on this, an unexpected change-over to Iranian petroleum would result in a considerably less favorable financial statement. The fact that the processing costs of Iranian petroleum are greater per ton of finished products than those of Zoila petroleum would make this even more true.

The type of raw material and assortment of products may result in fluctuations amounting to several million dinars per month. This has a bad influence in two ways: it gives a completely inaccurate picture of operations and production costs, and, even more important, it has an adverse influence on the efforts and incentive of personnel to reduce production costs. When an enterprise is realizing profits in excess of those planned without consideration of that has increased production costs, interest in decreasing these costs ceases. If an enterprise succeeds in reducing production costs by its own initiative and efforts, but shows an unexpected loss due to outside factors, it will abandon its efforts to reduce production costs in the future. In both cases the enterprise gets the impression that the financial statement is not dependent on its operations, and consequently ceases to strive to reduce production costs.

Since several kinds of finished products which are sold at different prices are obtained in one production process, production costs cannot be broken down by individual product, but are broken down by special formulas prepared for this purpose. This is done by distributing the over-all production costs proportionately among the individual products according to their selling prices. This means that the highest priced product will be charged with the highest proportionate share of the production cost. Since selling prices of various products are subject to fluctuations, the production costs charged against them also fluctuate. As a result, it may happen that a given finished product which constitutes a large part of the total production will bear a smaller share of production costs, as can be seen from the following example (Assortment I):

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Finished Products	Percent of Total Production	Percent of Total [illegible]	Percent of Production Cost
Special gasolines	2.46	4.77	4.77
Other white products (paraffins, etc.)	[illegible]	[illegible]	[illegible]
Oils	4.50	10.09	10.09
Bitumen	3.15	2.29	2.29
Miscellaneous products	29.69	14.14	14.14

Special gasolines, which constitute only 2.46 percent of the total production, constitute 4.77 percent of the total production value, and bear a corresponding percentage of production costs. The same applies to oils, which are only 4.5 percent of the output, but are charged with 10.09 percent of the costs. This means that as the production of these products increases, they take upon themselves a proportionately larger share of production costs, thereby leaving considerably less to be charged against other products, and vice versa.

The assortment of products may affect the planned financial statement in two ways. The total production value over a given period of time depends on the assortment, for a large output of the more valuable items will increase the total production value, and production costs per ton of finished products will depend on the assortment. A small output of the more valuable finished products will result in production costs higher than those planned. Assuming that the annual production plan calls for the production of 2.46 percent of special gasolines, and 49.31 percent of other white products, the average value per ton of such an assortment will be 3,774.27 dinars. However, if the following assortment (Assortment 2) is produced for one month instead of that planned, the value will be only 3,213.39 dinars: special gasolines, 1.24 percent; other white products, 49.53 percent; various oils, 3.82 percent; and miscellaneous products, 45.39 percent. For this assortment, distribution of production costs would differ from Assortment 1 as follows:

Finished Products	Percent of Total Production	Percent of Total Production Costs
Special gasolines	1.24	4.45
Other white products	49.53	44.7%
Various oils	3.82	6.7%
Miscellaneous products	45.39	39.2%

It is obvious that production costs per ton of all products in Assortment 1 are lower than those in Assortment 2.

How does such a change in assortment affect the financial statement? The financial statement is made on the basis of actual and planned production costs for each product. The planned production costs, however, are not prepared for each accounting period, but are set up at the beginning of the year. Consequently, the assortment of items manufactured in a given accounting period is evaluated on the basis of production costs which have been set up for

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quite another assortment at the beginning of the year. Therefore, the financial statement will be influenced not only by fluctuations in actual production costs caused by the greater or lesser efficiency of manpower, but also by a change in assortment which is independent of manpower.

The following table shows the results of a change in assortment:

Finished Products	Quantity (tons) Planned	Quantity (tons) Actually Produced	Total Production Costs (dinars) Planned	Total Production Costs (dinars) Actual	Production Costs per Ton (dinars) Planned	Production Costs per Ton (dinars) Actual
Special gasolines	2,[illegible]52	1,[illegible]61	1[illegible],154,059	17,[illegible],215	7,305.13	9,060.[illegible]
Other white products	64,558	52,789	272,377,023	266,[illegible]45,[illegible]	4,[illegible]93.04	4,986.13
Oils	4,[illegible]10	2[illegible]	40,516,[illegible]91	3,[illegible]72,2[illegible]	[illegible],446.01	10,645.52
Bitumen	3,3[illegible]9	--	[illegible],[illegible]34,159	--	2,631.56	--
Miscellaneous products	31,200	[illegible],[illegible]34	5[illegible],[illegible]70,719	120,666,962	1,[illegible]92.69	2,341.58
Total	106,[illegible]90	106,[illegible]90	401,552,[illegible]19	401,552,[illegible]19	--	--

NOTE: Since no bitumen was produced, there is no production cost for that article; this balances the increased unit costs for the other items.

As can be seen, the total quantities planned and realized balance, and the total production costs planned and fulfilled balance, but the production costs per ton planned and fulfilled are quite different because of the change in assortment. The production costs were planned on the basis of the assortment of the planned quantity; therefore, a fictitious loss is shown on the statement. Similarly, if a more valuable assortment than planned had been produced, the statement would show a fictitious profit. Both give an erroneous picture of the enterprise's operations.

To ascertain actual production costs it would be necessary to prepare a separate production plan for each accounting period. If this were done, the amounts shown for planned and actual production costs would check and would represent actual results. However, since this procedure is not anticipated by the current planned price procedures, enterprises and directorates may use it only for analytical examination of financial statements. Such examination is necessary because it is the only available way to reach a definite judgment of the financial statements of individual refineries. Experience this year has shown that the financial statements of all Yugoslav refineries were distorted because of the above-mentioned influences.

The planned assortment is determined on the basis of the raw material available, the production capacity of the given enterprise, and, finally and most important, the country's needs. During the course of a year requirements change. Consequently, if there is no longer a need or a market for a certain finished product, its production will be discontinued, or if one of a refinery's installations is not in operation, a change in assortment will result. A change in assortment may also be caused by a change in raw material.

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Because of their composition, various types of petroleum have different outputs and produce different assortments of products, thus affecting processing costs. Petroleums which yield a low percentage of miscellaneous products and waste result in a valuable output and relatively low production costs per ton of finished product. Petroleums yielding a large percentage of miscellaneous products and waste result in a less valuable output and high production costs per ton of finished product. Thus, Goila petroleum is highly profitable for processing, for the value of its products is very high while production costs per ton are relatively low, because the miscellaneous products and waste in this petroleum are only 22 percent. Iranian petroleum although similar in composition to Goila, does not produce as valuable products, because of the larger percentage of miscellaneous and waste products, which is about 52 percent. The value of Iranian petroleum products is 20 percent lower and production costs per ton are 10 percent higher than for Goila petroleum. This explains the extent to which a financial statement may be influenced by a change in raw material.

The following table shows the results of a change in raw material:

Finished Products	Planned Production Costs Based on Goila Petroleum (dinars)	Actual Production Costs of Processing Iranian Petroleum (dinars)	Loss per Ton (dinars)
Gasoline	2,475	2,954	479
White alcohol	2,203	2,642	439
Petroleum	3,029	3,610	581
Gas oil	1,739	2,07[illegible]	332
Spindle oil	4,[illegible]	5,[illegible]	844
Fuel oil (miscellaneous)	1,101	1,313	212
Paraffin	8,278	[illegible], 50	1,572
Coke-cracking	4,036	4,[illegible]	739

Data on production costs used are, in general, arbitrary and only for illustration purposes. They are not to be utilized otherwise.

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